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# **Commonwealth of Massachusetts**

## **Conversion Guide for GASB 34 / 35 / 37 and 38 For Institutions of Higher Education**

## Introduction

The purpose of this document is to assist the institutions of higher education in the Commonwealth in their conversion to reporting under Government Accounting Standards Board (“GASB”) Statements 34, 35 and the subsequent statements 37 and 38. It is published by the Office of the State Comptroller and augments the previously released implementation guide.

## TECHNICAL INQUIRIES

If you have any questions or comments regarding this guide or the implementation of the Statements, please feel free to contact:

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## Acknowledgements

This conversion guide was written with the help of many contributors. In the Commonwealth’s Office of the State Comptroller, B.J. Trivedi, Kathie Still and Marybeth Shaughnessy – Newell edited the guide. Contributors and consultants in preparation of this guide include:

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## Remainder of Implementation Calendar

The Commonwealth is on track for implementation of the new reporting model. Given that we are now post audit, a high level pro-forma set of Statement 34 / 35 financial statements **must be prepared from the fiscal 2001 statements for fiscal 2002. Our goal is to present the Secretary of Administration and Finance a “restated” comprehensive annual financial report on or before April 30, 2002.** The calendar now is as follows:

10/15/2001	Higher Education FY 2001 Audited Financial Statements Due
10/15/2001 – 3/22/2002	Commonwealth / institutions of higher education to be working with their auditors to restate beginning balances for purposes of the Statement of Cash Flows and otherwise to conform to GASB 34 / 35. The Commonwealth's goal is to produce a "restated" 2001 CAFR by 4/30/2002.
3/22/2002	Proforma institutions of higher education financial statements due to the Comptroller's Office, attention: BJ Trivedi, Bureau Manager, Financial Reporting and Analysis Bureau. <i>Earlier submission is encouraged. <b>Submit your documents in paper form as well as in electronic form on a "floppy" diskette in Microsoft Word and / or Excel.</b></i>
5/1/2002	GAAP packages mailed to institutions of higher education
6/28/2002	Last day of "business" for FY 2002 – Sunday, June 30, 2002 is the official end of the fiscal year.
8/15/2002	GAAP packages due to the Comptroller's Office.
10/15/2002	Audited GASB 34 / 35 / 37 / 38 institutions of higher education financial statements due to the Comptroller's Office. <b>Drafts to be presented to the institution's Board of Trustees will be accepted. Management's Discussion and Analysis must be included in the submission. The Commonwealth cannot prepare its MD&amp;A on an entity-wide basis without this information.</b>
12/31/2002	GASB 34 / 35 / 37 / 38 CAFR issued by the Commonwealth.

Due to anticipated budgetary cuts, it is unlikely that a dedicated "help line" staff at the Office of the Comptroller will be available for this conversion. Please engage your independent auditors for this task. **Please also note that GASB is in the process of issuing an update to its affiliated organization standards. Please work with your auditors to assess the effects of this proposed standard. The exposure draft had an implementation date of fiscal 2004.**

### Core statements to be converted for FY 2001

The following former statements that you prepared for FY 2001 will need to be converted and submitted to the Comptroller's Office no later than Friday, March 22, 2002.

Former Statement	New Statement
Not Presented	Management's Discussion and Analysis – Single Year format – ONLY IF THERE ARE MATERIAL ITEMS <sup>1</sup> FOR FY 2001 THAT WOULD NEED TO BE PRESENTED IN THE PROFORMA COMMONWEALTH STATEMENTS. However, you may want to prepare one to set up for your FY 2002 statements.
Balance Sheet	Statement of Net Assets
Statement of Changes in Fund Balances	NOT NEEDED
Statement of Current Funds Revenues, Expenditures and Other Changes	Statement of Revenue, Expenses and Changes in Net Assets
Not Presented	Statement of Cash Flows ( <i>Direct Method</i> )
Footnotes	Present footnotes in accordance with GASB 38, including:

<sup>1</sup> Material items are defined as items that are significant to the finances or operations of the school that will have an effect into 2002. This would mean any dramatic change in the checklist of items that should be discussed in an MD&A.

	<ul style="list-style-type: none"> <li>• Violations of finance related legal or contractual provisions etc.</li> <li>• Capital assets disclosure (see GASB 35, Note 1.)</li> <li>• GASB 3 cash and investments disclosure (only if different from 2001 financial statements.)</li> <li>• Debt / lease obligation footnote</li> <li>• Short term debt footnote</li> <li>• Disaggregation of receivable and payable balances footnote</li> <li>• Interfund <i>balances</i> – matrix presentation</li> <li>• Interfund <i>transfers</i> – matrix presentation</li> </ul>
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## Management's Discussion and Analysis

As discussed in the *Implementation Guide*, the Management Discussion and Analysis is now going to be a required element of the your financial statements. GASB 37 codified the GASB Implementation Guide's checklist of items for inclusion for a proper discussion and analysis. That checklist is included in the Commonwealth's *Implementation Guide*. **We encourage you to prepare and submit a discussion and analysis**, even if there are no items that your independent auditor would deem material that should be included in the Commonwealth's set of proforma statements. This will allow you to set up the format of the discussion in advance of producing a "real" discussion for FY 2002.

### *Uniform Policies for the Management's Discussion and Analysis*

After meeting with the Institutions of Higher Education in June of 2001 on Cape Cod, it was decided that a uniform set of details in the discussion and analysis was necessary. The following items should be included:

- Comparison of current year to prior year program revenues with the following subcategories:
  - Tuition and fees including a schedule / table of student fees
  - Grants and contracts analyzed at a high level
  - Auxiliary operations as a combined amount
- Comparison of current year to prior year general revenues with the following subcategories:
  - State appropriation analysis including:
    - Original
    - Supplemental
    - Capital
  - Investment income presented net of related fees.
- Comparison of current year to prior year expenses
  - Comparison by function (IPEDS) according to GASB 34, paragraph 11(b)(7)
- Disclosure of loss from operations (see below.)
- Discussion of currently known facts that will impact the future, including:
  - All tuition and fee changes
  - All appropriation changes
  - Significant enrollment changes

- Significant labor agreement changes
- Significant gifts since the balance sheet date
- Significant operational cost changes
- Significant facility changes
- New borrowings since the balance sheet date
- Significant program changes
- Other significant items including legislative changes, loans (bonds) and other borrowings or endowments and gifts.

### *Disclosure of loss from operations*

It is important that **“boilerplate” language not be used. However, the schools have asked for guidance to include on their losses from operations. The following is potential language for inclusion.**

#### *Loss from Operations*

The following schedule presents the Massachusetts Community College’s incurred losses from operations for FY20XX and FY20PY.

	FY 20XX	FY 20PY	Change
Tuition and Fee Revenue	\$xx,xxx,xxx	\$xx,xxx,xxx	\$xx,xxx
Other Revenue	X,xxx,xxx	X,xxx,xxx	xx,xxx
Operational Expenses	Xx,xxx,xxx	Xx,xxx,xxx	xx,xxx
Operating Loss			
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth’s payroll, net of remitted tuition to the Commonwealth	Xx,xxx,xxx	Xx,xxx,xxx	xx,xxx
Net	\$xx,xxx,xxx	\$xx,xxx,xxx	\$xx,xxx

Due to the nature of public higher education, institutions incur a loss from operations. The Commonwealth’s Board of Higher Education presets tuitions. The College sets fees and other charges. Commonwealth appropriations to the College made up the loss from operations not made up by tuition and fees. The College, with the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to mitigate losses after Commonwealth appropriations.

**In no way is this required language.** Please feel free to change the language as needed. You may also want to discuss, define and delineate what scholarship allowances and discounts are given during the year. This may also be discussed in the footnotes as a significant accounting policy. However, in the footnotes, the basis of accounting and presentation for them will have to be disclosed.

## Statement of Net Assets

As indicated in the *Implementation Guide* the important change that the Statement of Net Assets presents as opposed to the current Balance Sheet is the segregate of current assets and liabilities from long – term assets and liabilities. You must work with your independent auditor to ferret out these changes. Current and noncurrent items may occur in the following categories:

Assets	Liabilities
Cash	Compensated absences
Investments	Workers' compensation
Receivables	Deposits and unearned (deferred) revenues
Prepays and other assets	Funds held for others
	Capital lease obligations and other debt including the presentation of current interest payable

Net assets should be segregated by:

- Invested in capital assets, net of related debt
- Restricted for
  - Nonexpendable:
    - Scholarships and fellowships
    - Research
  - Expendable:
    - Scholarships and fellowships
    - Research
    - Instructional department uses
    - Loans
    - Capital projects
    - Debt service
    - Other
- Unrestricted.

Please discuss these classifications with your independent auditor for proper presentation. For the compensated absences liability, please use the HRCMS report HMBEN008 (as adjusted) for the proper split between current and long term. The Comptroller's office and the Board of Higher Education are working on an update to the report to take into account the concerns of certain employees in higher education. We hope that this report will be updated shortly.

Please use the Deloitte & Touche report on Workers' Compensation to provide the detail of the current and long-term liability for workers' compensation. Additional copies are available from the Office of the Comptroller. **The current portion of Worker's Compensation is being worked on by Deloitte & Touche and will be delivered to you as soon as possible.**

The footnotes to your institution's financial statements will also include an analysis of unrestricted net assets. The general categories for this analysis will include: capital

expansion funds (old unexpended plant); capital repair funds (old renewals and replacement); new program funds; and long-term investment funds (old quasi-endowment.)

### **Statement of Revenues, Expenses and Changes in Net Assets**

As discussed in the *Implementation Guide*, the categories of revenue and expense should be presented in a similar fashion to the current Statement of Current Funds Revenues, Expenditures and Other Changes. New categories may be added, most notably for depreciation and various amortizations. **All appropriations by the Commonwealth, gifts, investment income and interest must be presented as nonoperating revenue (expense.)** The Commonwealth's appropriations should be delineated by the final state appropriation, fringe benefits provided to the College's employees by the Commonwealth and the amount of tuition remitted to the Commonwealth. Capital appropriations, grants, gifts and additions to permanent endowments should be presented discretely as "other revenues, expenses, gains or losses."

Tuition *waivers or remissions for employees and their families* should reduce gross tuition and fees, but *need not* be presented on the face of the statement as a reduction of tuition revenue and fees, or as an expense. However, scholarship allowances should be presented on the face of the statement as a reduction of gross tuition and fees.

### **Statement of Cash Flows**

As explained in the *Implementation Guide*, your Institution must prepare a statement of cash flows prepared using the direct method. The statement will portray the bulk of the statement of revenues, expenses and changes in net assets line items, adjusted for the actual cash received and paid. **All state appropriations cash flow must be included in the cash flows from noncapital financing activities section.** Finally, a reconciliation of net operating revenues to net cash provided by operating activities must be included at the bottom of the statement of cash flows. All noncash investing, capital and financing activities is required to be footnoted in the statement, according to GASB 9, paragraph 37. This activity includes all projects erected by the Commonwealth's Division of Capital Asset Management (DCAM) that are upon completion. The transfers of these assets are a non-cash capital activity. Examples of this type of activity include the acquisition of assets through the assumption of liabilities, obtaining an asset via a capital lease or exchange of non-cash assets or liabilities for other non-cash assets or liabilities. **You should contact DCAM directly for this information.**

To prepare a statement of cash flows properly for 2002, the ending balances of 2001 need to be restated in GASB 35 format. That is already being done with the other two statements. To deliver a translated 2001 statement however, 2000 may need to be reviewed. Please be aware that this may take some time to prepare on your part. However, a solid cash flow statement is important for the proper translation of the financial statements for 2001.

**Examples of a set of financial statements converted for GASB 35 format that are acceptable by the Office of the Comptroller are included as an appendix to this conversion guide.**

### **Items to include in the footnotes' summary of significant accounting policies**

GASB 38 changed some of the footnotes previously presented. Furthermore, it was agreed in June of 2001 that the following should be presented in the summary of significant accounting policies in addition to items required for various GASB statements:

- A statement that the College is not adopting FASB standards post November 30, 1989.
- A statement that the College defines operating activity as all activity that is not specifically defined as non-operating by GASB 34, 35 or any other GASB statement.
- A statement on the policy of the use of restricted or expendable funds.
- A statement on the policy of defining "cash equivalents."

All other provisions of GASB 38 should be followed and included in the footnotes.

A footnote translation is important for the Commonwealth to properly present its proforma financial statements to the Secretary of Administration and Finance. Financial Statements without footnotes cannot be fully analyzed. It also will allow you to set up templates for your 2002 statements early.

### **Independent Auditor Involvement**

**We encourage you to perform this conversion in conjunction with your independent auditor.** Compliance with GASB 34, 35, 37 and 38 is a complex task and cannot be performed alone with the expectation of an unqualified opinion. For the FY2001 proforma statements, **we do not require an opinion or any other report from your auditors.** However, your auditor may want to prepare a compilation report for this activity. Please work with them to decide what is proper. Again, our office is not requiring and opinion or any other report.

## **APPENDIX**

**Massachusetts Community College**  
Proforma Financial Statements  
June 30, 2001

- **Managements Discussion and Analysis**
- **Statement of Net Assets**
- **Statement of Revenues, Expenses and Changes in Net Assets**
- **Statement of Cash Flows**
- **Footnotes**